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SUBJECT: Iceland: 2007 Parliamentary Elections, One Month Out

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11. (U) Summary: A month before Icelanders head to the polls for the May 12 parliamentary elections, the Left Greens are riding a wave of interest in environmental concerns. However, the emergence of a new green party could splinter the environmentalist bloc and ensure the current center-right coalition's survival. Apart from rhetoric about retroactively withdrawing Iceland's support for the invasion of Iraq in 2003 (but no other changes to Iceland's Middle East policy), foreign policy has not been a campaign issue. Environmentalist issues and energy-intensive industrial construction feature prominently in all parties' campaigns, but many here are comfortable with their quality of life and credit the Independence Party-led government. In the end it might all come down to Carville's phrase: "It's the economy, stupid." End Summary.

Election Procedures

12. (SBU) Election procedures in Iceland are similar to those in most Western European countries. The Althingi (parliament) has a total of 63 seats which are allocated proportionally across six voting districts. Voters cast their ballots for parties, not for individual candidates, though the parties publish their candidate lists in rank order ahead of the election. To receive an Althingi seat, a party needs to receive at least five percent of the vote nationwide, in addition to competing successfully within a given district. The traditionally apolitical president, who is elected separately in national elections in the year following Althingi elections, is empowered to formally appoint the cabinet. In practice, the leaders of the political parties forming the successful coalition decide the makeup and allocation of cabinet seats among themselves. Minority governments are not constitutionally permitted. Traditionally, only when the party leaders are unable to reach a conclusion by themselves in reasonable time does the president exercise his power to appoint the cabinet himself. Rumors continue to circulate, however, that the current president will break with tradition to the benefit of his political friends on the left (see below). Since 1991, two-party coalitions have held power with the Independence Party as the senior partner, but three-party coalitions were not uncommon in the past. Of the seven parties running, we expect five or six will be represented in the next parliament.

The Parties: Independence Leads The Way

13. (U) The Independence Party (IP), the senior party in the current majority coalition, is a center-right party led by Prime Minister Geir H. Haarde. In the past year party support has been measuring at 36 to 43 percent in Gallup polls, a slight rise over the 33.7 percent (22 seats) they received in the 2003 Althingi elections. The IP has a tendency to measure higher in polls than in elections,

but it can still safely expect to get between 30 and 40 percent of the vote. The IP's campaign touts the government's economic record, low unemployment, tax reductions, and diminishing government debt. At the same time, the IP has responded to the local environmental debate (Ref A) -- and some argue, stolen a plank from their primary opposition, the Social Democratic Alliance -- by announcing plans to slow down the build-up of heavy industry in Iceland, such as aluminum smelters, and establish a framework plan for possible future projects involving heavy industry.

¶4. (U) On foreign policy, the IP is a staunch supporter of the bilateral defense relationship with the United States and Iceland's NATO membership. Although IP stalwarts were frustrated with the manner in which the USG announced the withdrawal of U.S. military forces from Iceland in March 2006, PM Haarde's pragmatism and trustworthiness has made him the frontrunner in forging a new bilateral defense relationship with the United States. In addition, the IP has emphasized the need for Iceland to take on more responsibilities in security and defense affairs, fully realizing the need to fill the void left by the departure of U.S. forces. The party's success in this regard can be seen in the corresponding failure of opposition challengers to put foreign policy on the campaign agenda this spring.

Progressives: Running On Their Record (Sort Of)

¶5. (U) The junior member in the coalition, the Progressive Party (PP), is a traditionally agrarian and centrist party led by Minister of Industry and Commerce Jon Sigurdsson. Despite getting 17.7 percent (12 seats) in the last election, polls show the party with only eight to 10 percent support during the past year (which would translate into a drop to five Althingi seats). The party has in recent years attempted to extend its political base to urban areas, with unsatisfactory results -- Iceland's new urbanites have instead blamed the PP for industrializing Iceland's previously unspoiled highlands, while their coalition partners the IP get all the credit for recent economic growth. The Progressives' political base

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remains in rural Iceland, mainly farming areas such as Southern and Northeastern Iceland. The party supports continuing economic growth through further build-up of heavy industry and is opposed to the other parties' policies of putting a halt to or pausing further development. Their slogan, "Continued Results -- Don't Stop!" reflects the party's attempt to gain credit for Icelanders' comfortable lifestyle and support for further industrial investment.

¶6. (U) On international affairs, the PP was more cautious in its reactions to the closure of NASKEF and, apart from then-PM Halldor Asgrimsson's initial fit of pique, stayed largely aloof from the bilateral negotiations on the future arrangement of the bilateral defense relationship. Foreign Minister Sverrisdottir of the Progressives has, however, let slip a few public comments of frustration regarding the withdrawal of U.S. forces. The PP has flirted with the idea of looking to Europe and not just the U.S., with the FM making several comments over the past year about the "inevitability" of studying questions related to EU membership. The party is generally pro-American and pro-NATO, however, and has welcomed energy-intensive industrial investment by large American corporations, such as Alcoa, in Iceland.

The Alliance: Still Trying To Find Its Way

¶7. (U) The Social Democratic Alliance (SDA), a center-left party, was officially established in 2000 from the merger of four leftist and center-left parties. After a good showing in the 2003 elections (20 seats) followed by a change of party leadership in 2005 (current leader Ingibjorg Solrun Gisladottir is Iceland's only female party chair), the SDA has been losing momentum and its support has dropped steadily -- polls in March put the SDA at around 20 percent, behind the Left-Greens (see below) for the first time in its history. The SDA has touted the need to renovate the Icelandic welfare system along the lines of the Nordic social democratic welfare model in order to counter growing income disparity over the last decade. The SDA maintains that the current government has mismanaged the

economy, to the detriment of the the elderly and the disabled in particular. On "green" matters, the party has often wobbled in its attitudes towards further buildup of heavy industry. The SDA's present campaign platform, however, calls for an interim freeze on all plans for further industrial buildup, pending drafting of a framework to exclude certain locations from industrial development. When it comes to foreign relations, the SDA has pronounced itself "skeptical" of the value of current defense ties with the U.S. and alleges that the GOI could have achieved more in negotiations in 2006 had it been better prepared for the withdrawal of U.S. forces (Ref B). The SDA is the only party to openly call for E.U. membership for Iceland and has similarly said that Iceland should look to Europe more on security matters. Party chair Gisladdottir has also pledged that the first act of any SDA-led government will be to retroactively remove Iceland from the list of countries that supported the 2003 invasion of Iraq, though without stating any alternative policy goals regarding the Middle East.

The Left-Greens: Flavor Of The Month?

18. (SBU) The Left-Green Movement (LG) is composed of the leftists who did not want to join the SDA when it formed, due to concerns over both ideology and leadership. The party did not do well in the 2003 elections with only 8.8 percent of the vote (five seats), but since then has capitalized on the environmental issues wave that has swept Iceland in the last couple of years. In the past year the LG has been polling around 20 percent, with support surging as high as 27 percent in the past few months. The LG is no longer a fringe party and will likely be a major player in the post-election coalition negotiations, though party leaders privately voice concern that the new "Iceland Movement" (see below) will draw from the same pool of disaffected voters. The Left Greens have been commended for having a clear position on issues, and have thus pulled left-leaning voters from the comparatively wishy-washy SDA. Despite an avowedly socialist view on economic and fiscal policy, the LG claims it will not raise taxes, but will instead redistribute the tax burden in order to decrease income disparity. On its pet issue, the environment, the LG wants all plans for further buildup of heavy industry to be halted in favor of the creation of diverse sources of employment in rural areas. From its founding, the LG platform has called for Iceland's withdrawal from NATO and the development of a pacifist, cooperation-oriented foreign policy. That said, the LG Chair admitted to the Ambassador that he sees the need for the party to be "realistic" and that withdrawal from NATO will not be in the cards any time soon. There is no question, however, that if in government the Greens will demand that Iceland's name be immediately removed from the Coalition of the Willing regarding Iraq.

Liberals: Xenophobia Isn't Selling, Yet

19. (U) The Liberal Party (LP) was originally a one-issue party fighting the current quota system of fisheries management in Iceland. The party drew 7.4 percent (four seats) in the last elections, but its support had dropped to about three to four

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percent by last November. At that point, the LP caught the public's attention when it raised the issue of the growing numbers of immigrant workers coming to Iceland after labor movement within the European Economic Area was fully liberalized in May 2006. The party warned of possible consequences for the Icelandic wage market, the future of the welfare system, and Icelandic society as a whole if foreigners did not properly "adjust" to their new home. After an initial spike in LP following in the polls, the public at large and other political parties have since lambasted the LP for being xenophobic and even racist in its attitudes towards foreigners. (Comment: Likely due to the fact that unemployment is so low -- around two percent -- that the arrival of immigrants is helping, rather than burdening, the Icelandic economy. End comment.) They deny these allegations but their campaign advertisements suggest that there may be some truth to these accusations. While the party still emphasizes fisheries management, the immigrant issue appears to be taking over as issue number one. The LP is fairly pro-American and supports Iceland's NATO membership and maintaining the bilateral defense relationship with the U.S.

The Iceland Movement: Splitting the Green Vote

¶10. (SBU) The newest political party on the scene, The Iceland Movement - Living Land (IM), fashions itself as a "right-green" party headed by a well-known television personality, who is the party's interim chairman. The first polls since the party's formation in February, 2007 indicate that the party would get approximately five percent in the elections. Like the Left Greens, the IM wants to stop further buildup of energy-intensive industries that would affect unspoiled natural areas. Observers point out that this candidacy will divide environmentalist voters instead of uniting them, and thus likely benefit the current coalition partners. A Progressive Party stalwart gleefully told the Ambassador that he welcomes The Iceland Movement's candidacy for exactly this reason, and joked that maybe a few more environmental groups ought to run for parliament. So far the IM's position towards the U.S. -- and virtually every other issue -- is a tabula rasa.

Coalition Options

¶11. (U) Until very recently, the predominant assumption among both political pundits and the general public was that the current coalition government would be history after May 12 (owing largely to the Progressives' collapse in 2006 -- Ref C). A mid-March Gallup poll showed that 28 percent of voters wanted a center-left coalition (SDA and LG), while 24 percent wanted to see the current coalition live on. One coalition option that has often come up is a marriage of the extremes on right and left (the IP and the LG), which polled at 22 percent in March. Two options that are commonly believed to be off the table are a right and center-left (IP and SDA) mix, and a coalition of all three current opposition parties in parliament -- both of these choices are polling at less than 10 percent. However, the emergence of The Iceland Movement has thrown previous forecasts into disarray, and Gallup poll data released on April 16 have the current IP-PP coalition defying earlier odds at 36 percent support, the most popular option. An old saw of Icelandic politics is that the Progressives always do better than the pre-election polls indicate. In this case, thanks to the IM, the Progressives may do better than even the election results themselves indicate, as the "right-greens" may do just well enough to sink the left's chances without getting any Althingi seats themselves. In this scenario, the IP and PP would get a higher number of Althingi seats than their raw share of votes cast.

¶12. (SBU) One final wild card, however, is the possible role of President Olafur Ragnar Grimsson. Grimsson, a former MP and minister for one of the SDA's predecessor parties, has had a number of public spats with the current government during his tenure, most notably surrounding his unprecedented use of presidential veto power against a media ownership bill in 2004 (Ref D). Advisors in the current government have passed to the Ambassador rumblings that Grimsson, convinced that the IP-PP government is doing irreparable damage to the country, may take another unprecedented step in May and give the mandate to form a government to one of the parties on the left. Though constitutionally allowed, such a move might seem to many as a gross overstepping of the bounds of the President's generally ceremonial role. It is not clear how the potential constitutional crisis in this case might be resolved.

¶13. (SBU) Comment: As the issues have been framed so far, in a month's time Iceland's voters will face a referendum on whether heavy industrial investment is the price to be paid for Iceland's high standard of living or if some of the economy's vibrancy should be traded for preserving untouched areas of the country. Absent any involvement by President Grimsson, PM Haarde's Independence Party will likely be the driving force when coalition negotiations begin after the elections. Unless The Iceland Movement splinters the enviro-vote enough to let the current coalition continue, the next GOI will need to take account of environmental concerns and may be forced to slow down the pace of investment in aluminum and other

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heavy industries -- a move that would likely have a direct impact on the two U.S. aluminum firms active here. On other issues of importance to the USG, however, any IP-led government can be

expected to continue most current GOI policies.

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